SVB Financial Group Q2 2022 CEO Letter

To our Stakeholders

SVB delivered <u>Earnings Per Share of $5.60</u> and <u>Net Income of $333 million</u> in the second quarter, with a <u>Return on Equity of 10.87 percent</u>.

Persistent public market volatility pressured VC investment and exits, reducing client liquidity inflows and impacting our 2022 outlook

In the second quarter, private markets increasingly felt the impact of continued public market volatility. The IPO window remained closed and, in contrast to the first quarter when public market declines mostly affected later-stage companies, companies across all investment stages experienced challenges to accessing liquidity, with total VC investment declining 24 percent quarter-over-quarter. The reduction in client fundraising, coupled with increased burn rates – as companies with already accelerated burn rates took proactive actions to reduce future spending – pressured Q2 balance sheet growth.

Despite these challenges, many parts of our core business performed well in the second quarter. Loan growth and pipelines were healthy; NII and client investment funds benefitted from higher interest rates; SVB Securities revenue was robust; and client acquisition remained near historic highs. NCOs and NPLs also remained low, although the increase in unreserved charge-offs and new NPLs may indicate potential emerging pressure from market volatility.

We have adjusted our full-year 2022 outlook to reflect our expectations that challenged public equity markets and declines in venture deployment will continue for the remainder of 2022, which will pressure our balance sheet growth. While we are maintaining our full-year 2022 NCO outlook, we expect NCOs to increase in 2H'22 and have proactively raised reserves.

To offset these changes somewhat, we decreased our expense outlook, leveraging the flexibility that allowed us to increase investment when revenue tailwinds were strong to dial down expense growth while still investing in our strategic priorities.

Long-term growth opportunity remains intact, despite near-term challenges

While the current environment is challenging for the innovation sector, we remain confident in the long-term growth opportunity of our markets, and we see reasons for optimism.

VC and PE firms have record levels of dry powder (8 times higher than 2000 levels) to put to work, and we believe they will do so as valuations stabilize. If IPO markets reopen and we see faster deployment of private capital, or if client burn rates decelerate, we could see better balance sheet growth.

While VC activity pulled back during the second quarter, our client acquisition remained near all-time highs. Experience has shown us that good companies are founded and funded in the troughs as well as the peaks of every cycle, a lesson not lost on PE and VC firms, many of whom regret missing out on opportunities during the Global Financial Crisis and VC Recalibration

We believe the long-term tailwinds supporting the innovation economy remain intact and it will continue to expand over time. The digital economy has been a key driver of economic expansion in the past two decades, growing by 350 percent between 2000 and 2020 – 2.4 times faster than the overall US economy[i], a figure that does not include the addressable market for innovation companies, which has expanded even faster as technology has made its way into every aspect of our lives.

We are well-positioned to support our clients and navigate market conditions

Against this backdrop of market uncertainty, SVB is better positioned than at any point in our history to support our clients. We have a unique business model serving dynamic, resilient markets; a high-quality, liquid balance sheet; and expanded capabilities and earnings power as a result of the investments we have made in our business.

The resiliency of our clients has helped drive client funds growth over time that has provided the foundation for sustained revenue growth, market disruptions notwithstanding. While we have historically seen short periods of quarterly client fund declines during significant market cycles, annual average total client funds have only declined twice since 2000, and these pullbacks have been followed by quick rebounds and better-than-market expansion of client activity and funds growth.

Through consistent focus over time, we have built a seasoned leadership team, and a proven track record of navigating successfully through market cycles. The market adjustments we are seeing today are a normal and necessary part of the innovation cycle (and the broader economic cycle), and we are confident in our ability to support our clients and manage our business through them.

Focus on clients, partnership and execution

SVB's focus and commitment to our clients has made us a trusted partner for innovators, entrepreneurs, and investors across the global innovation economy for the last 40 years. We built our reputation over decades of focus and partnership, regardless of market conditions. When we talk about the power of the SVB platform, we are not just talking about our capabilities and insights; we are talking about being a committed partner in our clients' journeys, even in challenging times … <u>especially</u> in challenging times.

While we adjusted some of our near-term revenue expectations, we have not changed our view of the long-term growth opportunity represented by the innovation economy. We believe demand for investment in the most dynamic segment of the global economy will remain robust over time. With SVB's diversified business model and unique role in helping individuals, investors and the world's most innovative companies achieve extraordinary outcomes, we remain confident we are in the right market with the right strategy for the long term.

Greg Becker
President and CEO

This Q2 2022 CEO Letter should be reviewed together with SVB's Earnings Release, Earnings Presentation, and SEC filings for the same period.

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[i] Sources: Pitchbook, US Bureau of Economic Analysis, and SVB analysis; Digital economy defined by the US BEA and used as a proxy for the value added to US GDP by that sector between 2000 and 2020